MINNESOTA · REVENUE

March 04, 2014

PROPERTY TAX

Disabled veteran homestead valuation exclusion extended

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 2261 (Persell) / S.F. 1954 (Chamberlain) as introduced

	Fund Impact			
	FY2014	**FY2015**	**FY2016**	**FY2017**
	(000's)			
Property Tax Refund Interactions	$0	$0	$120	$190
Income Tax Interactions	$0	$0	$0	$0
General Fund Total	$0	$0	$120	$190

Effective beginning with taxes payable in 2015.

EXPLANATION OF THE BILL

Under current law, a market value exclusion is available for homestead property owned by a disabled veteran who is at least 70% disabled as a result of a service-connected disability. The exclusion amount is based on the disability percentage: 70% to <100% disabled = $150,000 valuation exclusion; and 100% disabled = $300,000 valuation exclusion.

If upon the death of a 100% disabled veteran the spouse is the legal owner of the property, the exclusion carries over to the benefit of the veteran's spouse for five additional taxes payable year or until the spouse sells, transfers, or disposes of the property, whichever comes first.

The proposal would make permanent the exclusion extension for surviving spouses.

REVENUE ANALYSIS DETAIL

- For taxes payable year 2014, approximately 12,340 veterans in Minnesota with a disability rating of at least 70% received a homestead valuation exclusion, the fifth year it was available. Approximately 7,770 have a disability rating of 100%.
- Due to the passing of a qualifying disabled veteran, it is estimated that 3% of homesteads receiving the valuation exclusion would lose eligibility each year under current law. It is assumed that 25% of these homesteads would have no surviving spouse or the spouse would choose to transfer the property. The remaining 75% would be eligible to continue receiving the homestead valuation exclusion.
- The disabled veteran valuation exclusion results in a net property tax refund savings to the state general fund. There would be no income tax interaction as shifting property taxes yield zero net change. The average state savings per homestead with a disability rating of 100% is estimated to be approximately $480. A 3% annual growth rate is assumed.
- The first new extensions would impact taxes payable in 2015. It is assumed that any eligible spouse who stopped receiving the market value exclusion after pay 2013 would be allowed to continue receiving the exclusion beginning again in pay 2015.
- The proposal would shift an estimated $480,000 in property tax onto all other property types in

the first year and $760,000 in the second year.
- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: An estimated 390 widowed spouses of veterans would have their homestead valuation exclusion extended in the first two years.

PROPERTY TAX BENCHMARKS **(Minn. Stat. § 270C.991)**

Transparency, Understandability, Simplicity & Accountability	Neutral	
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Increase	For taxpayers, the permanent exclusion would be in place until the property is transferred.
Competitiveness for Businesses	Neutral	
Responsiveness to Economic Conditions	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

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